

## **Why Private Equity Is a Problem for Public Media**

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When telecommunications and television networks were privatized in many countries in the '80s, there was much public debate. Today, a second wave of media privatization is sweeping the world, but this time without much public notice even among the activist media reform movement. It is the acquisition by private equity partnerships of stock-market-traded "public" media companies.

In the past year or two, private equity firms such as Bain, Blackstone, Carlyle, KKR, Providence, or Texas Pacific—and their equivalents elsewhere-- have acquired major media and communications companies. These include Clear Channel, MGM, Univision, and PanAmSat in America; VNU/Nielsen in the Netherlands, ProSiebenSat in Germany, TDC in Denmark, Eircom in Ireland, and SBS in Luxembourg. Other companies such as Vivendi, EMI, and parts of the Tribune Co. have been circled by private equity firms. Still other firms were taken fully private by their majority shareholders, such as Bertelsmann, Cox, and potentially Cablevision.

Private equity has been in the ascendancy, buoyed by cheap debt, rising equity prices, and high liquidity. In 2006, almost a quarter of all M&As was financed in that way, with over 2,500 deals worth \$655 billion worldwide. Talent has flocked to PE firms, from ex-CEOs to presidents, prime ministers, and regulators.

This trend has raised questions. Many PE deals are fuelled by a desire to flee the closer regulation and disclosure requirements of public companies. In the aggregate this reduces the transparency of the economy, even as it may make some companies more efficient.

There are additional considerations for media firms.

On the positive side, the PE deals often lead to a breakup of large media conglomerates to reduce debt that paid for the acquisition. Thus, Clear Channel, the poster boy for media concentration, is now in the process of selling off almost half of its 1,100 radio stations. Similarly, private equity has been an instrument of deconcentration for the Tribune Co and McClatchy newspaper divestitures, and for Time Warner music and New York Times' TV station spin-offs. Where media conglomerates were part of empire building, they are likely to be dismantled by unsentimental cost-cutters installed by the PE owners.

On the negative side, the same cost-cutting has also impacts on news rooms, film budgets, script selection, and R&D. PE is basically conservative as it seeks the cash flows to meet debt payments and position the company for subsequent resale, just as venture capital is risk taking. PE is also short-term oriented, and unlikely to undertake major upgrades of communications infrastructure that might have long-term benefits for the economy.

PE also changes the nature of media ownership. Public attention has centered on visible moguls such as Murdoch, Redstone, or Eisner. That personalized portrayal has a certain antiquated quality to it. In reality, most media companies have been majority owned by institutional investors – mutual and pension funds, endowments, etc.[ footnote: See Eli Noam, *Media Ownership and Concentration in America*, Oxford University Press, forthcoming] Just the top ten of these institutions, such as Fidelity, own in the aggregate over 20% of the 25 largest U.S. media companies. But they rarely interfered with managers beyond a general pressure to keep the stock price up. Company management was accountable to all shareholders and scrutinized by the public and investment analysts and the press.

But this changes under private equity. Now, a PE fund's management company controls the acquired media company fully and installs its management with tough performance mandates. Increasingly, the PE fund partners play a hands-on operational role beyond the merely financial one.

In contrast to the public institutional funds with their numerous small investors, the private equity funds is limited by law and strategy to deep-pocket investors whose identity are not disclosed. The funds themselves keep a low profile. For example, Thomas H. Lee Partners is a \$20 billion Boston PE firm that has acquired singly or in partnership the media companies Clear Channel, Univision, VNU/Nielsen, Houghton Mifflin, and Warner Music. Yet the firm does not appear to even maintain a website. In general, little information is available to the press. Securities analysts do not follow the stock. Small investors and activists have no forum. And governments cannot evaluate the soundness of companies that may be essential national infrastructure providers.

All this raises questions about openness, transparency, and control. Where media firms have financial owners with supervisory and operational roles, their economic coverage must not be tainted by suspicion of self-interest of principals or of manipulation from other countries.

What then to do about this without burdensome intervention in a mechanism that has positive aspects, too? The answer has to be to ensure the disclosure of ownership. For example, the actual managing owners and substantial beneficiary owners of media firms that hold government licenses or use favorable postal rates for press mailings should be part of the public record, as well as their nationality. In open societies large media holdings must be in the open. Direct regulation by government of media is undesirable. But disclosure is another matter. The role of media is to inform and shine light, and their own structure cannot be secretive. Otherwise accountability becomes impossible, suspicions abound, and the credibility of all media will suffer.